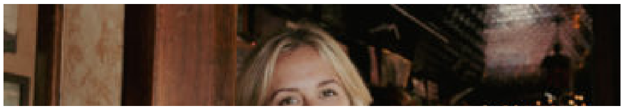
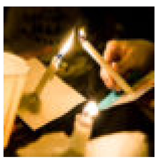


Why Banks Are Suddenly Closing Down Customer Accounts

NOVEMBER 5, 2023



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Why Banks Are Suddenly Closing Down Customer Accounts

November 5, 2023 in **News**

The reasons vary, but the scene that plays out is almost always the same.

Bank customers get a letter in the mail saying their institution is closing all of their checking and savings accounts. Their debit and credit

cards are shuttered, too. The explanation, if there is one, usually lacks any useful detail.

Or maybe the customers don't see the letter, or never get one at all. Instead, they discover that their accounts no longer work while they're at the grocery store, rental car counter or A.T.M. When they call their bank, frantic, representatives show concern at first. "Oh, no, so sorry," they say. "We'll do whatever we can to fix this."

But then comes the telltale pause and shift in tone. "Per your account agreement, we can close your account for any reason at any time," the script often goes.

These situations are what banks refer to as "exiting" or "de-risking." This isn't your standard boot for people who have bounced too many checks. Instead, a vast security apparatus has kicked into gear, starting with regulators in Washington and trickling down to bank security managers and branch staff eyeballing customers. The goal is to crack down on fraud, terrorism, money laundering, human trafficking and other crimes.

In the process, banks are evicting what appear to be an increasing number of individuals, families and small-business owners. Often, they don't have the faintest idea why their banks turned against them.

But there are almost always red flags — transactions that appear out of character, for example — that lead to the eviction. The

algorithmically generated alerts are reviewed every day by human employees.

Banks generally won't say how often they are closing accounts this way, and they're not tracking how often they get it wrong. But federal data offer clues.

By law, banks must file a "suspicious activity report" when they see transactions or behavior that might violate the law, like unexpectedly large cash transactions or wire transfers with banks in high-risk countries. According to Thomson Reuters, banks filed over 1.8 million SARs in 2022, a 50 percent increase in just two years. This year, the figure is on track to hit nearly two million.

Multiple SARs often — though not always — lead to a customer's eviction. Federal laws have little to say about the trigger for account cancellations.

But a New York Times examination of over 500 cases of this dropping of customers by their banks — and interviews with more than a dozen current and former bank industry insiders — illustrates the chaos and confusion that ensue when banks decide on their own to cut people off.

Individuals can't pay their bills on time. Banks often take weeks to send them their balances. When the institutions close their credit cards, their credit scores can suffer.

Upon cancellation, small businesses often struggle to make payroll — and must explain to

vendors and partners that they don't have a bank account for the time being.

As if the lack of explanation and recourse were not enough, once customers have moved on, they don't know whether there is a black mark somewhere on their permanent records that will cause a repeat episode at another bank. If the bank has filed a SAR, it isn't legally allowed to tell you, and the federal government prosecutes only a small fraction of the people whom the banks document in their SARs.

As a result, you don't know what you're under suspicion for. "You feel like you're walking around wearing this scarlet letter," said Caroline Potter, whose Citibank accounts were shut down abruptly last year.

The banks, facing ever more aggressive regulators and examiners, offer a modicum of sympathy.

"We want to build long-term relationships with our clients, which is why accounts are closed only after appropriate review and consideration of the facts," said Jerry Dubrowski, a spokesman for JPMorgan Chase, the nation's largest bank with 80 million retail customers and six million small-business ones, whose former account holders sent nearly 200 complaints to The Times.

"We act in accordance with our compliance program, consistent with our regulatory obligations," Mr. Dubrowski continued. "We know that can be frustrating to clients, but we must follow those obligations."

He added that “the vast majority of closures are correct, consistent with the regulatory obligations we are required to follow,” and that the number of closed accounts was a fraction of the bank’s overall business.

Federal data on the types of SARs that banks file show what they worry about most. Last year, banks filing SARs tagged categories like suspicious checks, concern over the source of the funds and “transaction with no apparent economic, business or lawful purpose” most often, according to Thomson Reuters.

To former bank employees, the bloodless data belie the havoc that banks wreak. “There is no humanization to any of this, and it’s all just numbers on a screen,” said Aaron Ansari, who used to program the algorithms that flag suspicious activity. “It’s not ‘No, that is a single mom running a babysitting business.’ “It’s ‘Hey, you’ve checked these boxes for a red flag — you’re out.’”

What follow are profiles of customers who lost their accounts and an analysis of what behavior may have spurred their banks to shun them.

Unusual (or the Usual) Cash Deposits

Bryan Delaney has owned several New York City bars over the decades, and he and his business partner and general manager, Jennifer Maslanka, have a longstanding system for handling cash: It goes to the bank on Fridays and Mondays.

As card use has increased over the years, the size of the deposits has decreased. To make the accounting easier on new staff who started working during the pandemic, Mr. Delaney and Ms. Maslanka often rounded deposits down to the nearest thousand and kept the rest of the cash on hand to make change.

This year, Chase closed the bar's account, plus personal checking and credit-card accounts for Mr. Delaney, his wife and Ms. Maslanka, giving them a handful of weeks to make other banking arrangements.

Federal law requires depositors to fill out a form if they're depositing or withdrawing more than $10,000 in cash. Sometimes, in an attempt to avoid the gaze of the authorities, account holders will engage in "structuring," making a series of transactions just under $10,000. It's one of the top reasons that banks file suspicious activity reports.

Mr. Dubrowski, the JPMorgan Chase spokesman, said the bar's series of deposits was indeed the problem.

"We must know our customers and monitor the transactions that flow through our bank," he said. "That includes instances where we see a pattern of cash deposits that are just below federal currency reporting thresholds."

Mr. Delaney said he had not been engaged in structuring when depositing money in round numbers. All the cash had come from the bars, he said, and he reported his income and paid his taxes as he was supposed to.

The bank's explanation is especially maddening, given that he and Ms. Maslanka had filled out plenty of the $10,000 forms over the years. "What's to gain from not filling it out?" he said. "What's the risk of filling it out? I've done both when deposits warranted that."

"I'm still so confused," Ms. Maslanka said. "Do you think I'm part of some underground Mafia, laundering money through my little beer bar?"

A Marijuana Connection

For Caroline Potter, the trouble began on the phone.

"There were these weird calls with a very mysterious customer care department, and they kept asking for our tax returns," she said. "No one sees my tax returns except the I.R.S. and my C.P.A."

Ms. Potter and her husband had moved to Idaho during the pandemic, selling their old house in New York and buying a new one. Some large chunks of money moved between their various Citibank accounts — the sale, the mortgage payoff, the down payment on the new abode — but nothing that the bank would not have seen before.

Then, suddenly, Citi shut down everything, including their checking accounts and credit cards. The couple's attempts to get an explanation led to nothing but frustration.

"It felt like there was this secretive department, and anyone who wasn't in that

department didn't even know about it," Ms. Potter said.

Her hunch is that Citi didn't like that her husband's income comes as direct deposits from the cannabis company that recently acquired his employer. Is the company on some kind of do-not-engage list that Citi keeps?

Citi declined to comment, even though Ms. Potter granted the bank permission to speak about the couple's accounts.

International Wires

Oore Ladipo, who is from Nigeria, had been working as a data analyst at Morgan Stanley in New York — it was a contract job — while earning a master's degree in quantitative method and modeling.

After Mr. Ladipo received his degree, he got an offer for a permanent position but couldn't start until he received his employment documents from the federal government. It took a few months, so his parents — both civil servants at the time — wired him money from Nigeria, probably around $1,500 a month, to help him make rent in early 2018.

That summer, Chase sent him a letter saying his accounts would be shuttered. "They were aware of my study, work and family history but still closed my account after almost 10 years," he said. Mr. Ladipo, now 30, had banked with Chase since he moved to Ohio in 2010 for college.

Mr. Ladipo felt confused and betrayed, but he believed that the Nigerian wires were the likely culprit.

“And in this scenario, you can’t really negotiate,” he said. “You aren’t talking with a person who has the power to tell you what went wrong and what didn’t go wrong.”

Wires and suspicious electronic transfers are another common reason that banks file SARs. But in Mr. Ladipo’s case, the cause for suspicion was a third party — a suspected fraudster — that surfaced in his web of transactions.

“We must know our customers and monitor the transactions that flow through our bank,” Mr. Dubrowski said, who stressed that the bank was not accusing Mr. Ladipo of any wrongdoing. “That includes instances where we suspect that the transactions involve parties connected to potential scams.”

That explanation didn’t satisfy Mr. Ladipo, who said the lack of specificity left him wondering if even his rent check could have been cause for suspicion — or if his background might have caused his accounts to warrant a closer look.

“I can’t tell if being from a different part of the world makes me an increased risk for the algorithm or if there is bias against me in their decision-making process,” he said.

Unusual Cash Withdrawals

When Steven Ferker bought a house in New York in late 2016, he withdrew money from one of his Citi accounts in chunks of $7,000 to $12,000 to pay his contractor, who requested cash payments. He also used a Citi credit card with a 12-month, zero-interest offer to buy things for the kitchen in 2017.

He was surprised when the bank called to ask why he was making repeated cash withdrawals. Each time, he explained the situation. “I assumed they were calling to make sure someone was not stealing my money, and I was glad that they called,” he said. “But I never gave it two thoughts until they threw me out.”

Citi declined to comment.

Mr. Ferker was aware of banks’ wariness of large transactions in round numbers, but he was taking out his own money and immediately giving it to a contractor doing visible work. “Cash is legal tender in this country,” he said. “I understand that people hide their income, but I figured that was none of my business. It’s his business.”

As is the pattern, the Dear John letter from the bank offered no explanation. But when he went into the branch, the frustrated manager said more than he was supposed to. “The answer was: ‘Don’t ask me. Ask the computer that flagged you,’” Mr. Ferker said.

Criminal History

Nick Seidel, 42, of Chicago, has had his bank break up with him three times. Chase dumped him first. Then, after an 18-month relationship with Fifth Third, it, too, shut down his accounts.

At BMO Harris, Mr. Seidel struck up a relationship with his personal banker and told him about his banking troubles and his suspicion of what was behind them: He had served time in prison.

The banker assured him that it wouldn't be a problem, until it was: The letter arrived roughly 18 months later. Mr. Seidel took it in to show his banker. "No way," Mr. Seidel recalled him saying. The banker made a call while Mr. Seidel was waiting in his office, then typed something into his computer.

"I'm not supposed to tell you this," the banker said. He turned his computer monitor around so Mr. Seidel could see it.

It was his mug shot from about 10 years before.

"I had never had any banking issues, no overdrafts or suspicious activity," Mr. Seidel said. "Apparently some banks just run public searches of their clients and drop them if they are justice-impacted. It's always a frustrating, inconvenient and embarrassing experience."

In 2011, Mr. Seidel stole a 2002 BMW from a car dealership and used a counterfeit $20 bill, among other crimes. He served five years in prison, where he underwent cognitive

behavioral therapy and earned several paralegal certificates.

Mr. Seidel saved money he earned from drafting legal documents for other inmates. After he was released in December 2015, a friend picked him up, and they headed straight to the bank so Mr. Seidel could start his life anew.

Using a state-issued identification card and a check from the Department of Corrections, he opened a checking account at Chase. “It wasn’t like they didn’t know,” he said.

But the bank later shut down the account after learning that he had used counterfeit money.

“We believe in giving people with conviction histories a second chance while we balance our obligation to mitigate potential financial crimes,” Mr. Dubrowski, the spokesman, said. “So, customers who have prior convictions for financial crimes may not be able to open an account with us for a period of time.”

Fifth Third and BMO Harris declined to comment on Mr. Seidel’s situation, even though he provided permission for them to do so.

Mr. Seidel, who has a mortgage through Fifth Third and was recently accepted into a master’s of legal studies program, is working as a paralegal under a contract with a federal regulator. The kicker: He helps investigate securities fraud, a job that required a four-hour background check.

But he still keeps two bank accounts open as a contingency plan.

Community Loan Pools

Banks dislike any patterns that look like scams and will shut down behavior that seems suspicious.

But bank customers often don't get to explain themselves in the moment. When Rosanna Bynoe, who lives in San Francisco with her husband, opened a new Chase account, she told the representative exactly what they'd be using it for: a susu.

Susus are community savings and loan pools, and they often have a person at the center of them collecting and distributing money. Ms. Bynoe's mother and grandmother had set money aside this way over the years, and she and her husband were trying to participate electronically. Each week, they sent the same amount of money via Zelle, the electronic payment platform in which JPMorgan Chase is a part owner, to the same person, who was a kind of susu captain.

One day in 2019, Ms. Bynoe and her husband lost access to their bank accounts and credit cards. Ms. Bynoe's husband went to a branch banker, explained the susu and showed how the lump sum of savings had come back into the couple's account each year for three years.

It did not help. "It was like he was speaking to a machine," Ms. Bynoe said.

The whole situation was simultaneously baffling and infuriating, she said. Why does the bank get to tell her how often or how frequently and with what amount she can do things with her money? Why *didn't* it tell her ahead of time that she might have a problem when she declared her intentions?

And given the long history of racism in the banking industry, did the fact that lots of Black people use susus have something to do with losing her account?

"What part of our profile tells you that we are doing fraudulent activity?" Ms. Bynoe said, who is mixed race, echoing the question that Chase's branch bankers did not answer. "If people of color are disproportionately affected by this issue, then that needs to be looked at."

Mr. Dubrowski said the overall movement of money didn't appear proper. "We must know our customers and monitor the transactions that flow through our bank," including instances where the bank sees a pattern of activity that could be associated with a scam, he said.

"We do not close accounts based on race, ethnicity or national origin, and we didn't in this case," he added.

Out of curiosity, Ms. Bynoe called a Chase credit card representative in April to see how long the company had barred her. The rep said it was for life. Mr. Dubrowski said that there were no lifetime bans and that the bank made decisions on a case-by-case basis.

Ms. Bynoe and her husband figured that Chase's actions would create long-term repercussions for them in the financial system or even with the government. After all, Chase didn't say there *wouldn't* be further trouble. But Citi and Bank of America were happy to continue to do business with them.

This was a relief. It was also quite odd. "You've got one bank telling you that you're essentially a fraudster," Ms. Bynoe said. "But all of the rest of the world is good. I don't understand."

The post Why Banks Are Suddenly Closing Down Customer Accounts appeared first on New York Times.

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